



## **Insurance Premium Financing is a Maryland state-regulated product and should be exempt from proposed commercial financial transactions disclosure legislation**

### **What is Insurance Premium Financing?**

- A process for small businesses to acquire necessary insurance coverage without having to make a large, upfront lump sum payment, including when insurance companies do not offer installment payments.
- Small businesses use premium financing for a variety of reasons; including, inability to pay for adequate coverage in a lump sum, smoothing out cash flow, preserving working capital for other business objectives, and preserving other credit options.
- Insurance agents and brokers assist their business customers to arrange premium financing by soliciting loan quotations from one or more premium finance lenders, often through a speedy automated process online.

### **How May Proposed Commercial Financial Disclosure Legislation Affect Premium Financing?**

- Commercial financial disclosure legislation was introduced in January 2024 as Maryland Senate Bill 509 with a companion House Bill 574. These measures propose to curb perceived commercial lending abuses in Maryland by requiring additional financial disclosures when making loans to small businesses and seeking to regulate the unregulated lenders in the State.
- Commercial loans of \$2,500,000 and less are subject to the law's requirements unless an exemption applies. The types of loans captured by the legislation included open-end and closed-end credit facilities, factoring transactions, sales based financings, and other types of commercial financings. Commercial financings regulated under the bills include any form of financing, the proceeds of which the loan recipient does not intend to use primarily for personal, family or household purposes.
- The bills, among other things, require certain interest rate calculations, establish numerous disclosure requirements that apply to each type of financing, and oblige potential borrowers to sign each applicable disclosure before a lender or provider can continue the commercial finance process.
- Without express exemption from such legislation, insurance premium finance loans likely fall within the scope of its application.

### **Why is Insurance Premium Financing Different than other Lending Covered by Legislation?**

- Insurance premium finance lending is already highly regulated in the State of Maryland.
- Premium finance lenders are required by law to register with the Maryland Insurance Commissioner through the Maryland Insurance Administration (the "MIA").
- Registration includes but is not limited to the following: evidence of financial solvency and information about the lender's officers, directors, and owners; a list of finance charges, initial service fee, service charges, and any other fees and charges to be applied plus method of interest rate calculation; a copy of all proposed rate charts, schedules, and/or manuals; and an original copy of the proposed premium finance agreement to be used.



- Premium finance loan agreements are strictly governed by Maryland Insurance Code, Title 23, including requisite loan term and fee disclosures, interest rate calculations and maximums, and mandatory prepayment statements.
- Nearly every disclosure contemplated under proposed commercial finance transaction legislation has already been required for insurance premium finance loans under existing Maryland law.

**Because Premium Financing Is Thoroughly Regulated by the State of Maryland, Proposed Commercial Financial Disclosure Legislation Should Clearly Exempt Premium Financing**

- Premium finance lenders include detailed loan disclosures as required by existing Maryland premium finance statutes in premium finance agreements, and premium finance lenders do not use loan applications.
- Premium finance lenders compete on services, interest rates, and the speed of transaction. Adding extensive disclosure and signature obligations will increase premium finance administrative costs and therefore the cost of borrowing, potentially delaying the insurance purchasing process and making insurance purchases more costly and time consuming for small businesses in the State.
- Proposed commercial finance transaction legislation in the State of Maryland should include an exemption for registered insurance premium finance lenders offering and entering into premium finance agreements as defined in Maryland Insurance Code Title 23.